

HOUSE FINANCE COMMITTEE
February 05, 2004
1:40 P.M.

TAPE HFC 04 - 20, Side A

CALL TO ORDER

Vice-Chair Meyer called the House Finance Committee meeting to order at 1:40 P.M.

MEMBERS PRESENT

Representative John Harris, Co-Chair
Representative Bill Williams, Co-Chair
Representative Kevin Meyer, Vice-Chair
Representative Mike Chenault
Representative Eric Croft
Representative Hugh Fate
Representative Richard Foster
Representative Mike Hawker
Representative Reggie Joule
Representative Carl Moses
Representative Bill Stoltze

MEMBERS ABSENT

None

ALSO PRESENT

Steven Porter, Deputy Commissioner, Department of Revenue.

PRESENT VIA TELECONFERENCE

Harold C. Heinze, Chief Executive Officer, Alaska Natural Gas Pipeline Authority (ANGDA).

GENERAL SUBJECT(S):

The following overview was taken in log note format. Tapes and handouts will be on file with the House Finance Committee through the 23rd Legislative Session, contact 465-2156. After the 23rd Legislative Session they will be available through the Legislative Library at 465-3808.

**OVERVIEW: DEPARTMENT OF REVENUE
NATURAL GAS PIPELINE ISSUES**

LOG	SPEAKER	DISCUSSION
	TAPE HFC 04 - 20 SIDE A	
000	Vice-Chair Meyer	Convened House Finance Committee at 1:40 p.m.
015	STEVEN PORTER, DEPUTY COMMISSIONER, DEPARTMENT of REVENUE	Spoke to the Governor's position on the Stranded Gas Act and the Alaska Natural Gas Development Authority (ANGDA). To illustrate ANGDA's role, presented an analogy in which the state owns the field and leases it to a private party to produce a product. When the product is ready for harvest, the owner and the private party derive revenue. The private party could take the product to market by buying the trucks or building the fleet, or by hiring a trucking company, similar to the recent proposal by Mid America. Independent operators could deliver the product to the smaller communities along the route. He stated that ANGDA's greatest strength is to look at the potential benefits to the state.
458	Mr. Porter	Noted that several bills are before the legislature, with one recommending funding at \$2.15 million.
532	Mr. Porter	Recommended that the funding be increased to \$3 million and be expanded to a team including the Department of Law, the Department of Natural Resources, and the Department of Revenue. Explained that additional work may be required under the Stranded Gas Act to respond to the applications. The appropriation would be housed in the Department of Revenue.
617	Mr. Porter	The Alaska Natural Gas Development Authority was developed with the specific mission of looking at bringing natural gas from the North Slope to Valdez with the possibility of a spur to Cook Inlet. In hindsight, the Administration believes that ANGDA should have been an all-Alaska authority with a focus on independents. He recommended legislative changes to address this expansion in ANGDA.
758	Mr. Porter	Recommended extending the deadline from mid-June and directing the ANGDA to focus on a broader range of issues.
927	HAROLD C. HEINZE, CHIEF EXECUTIVE OFFICER, ALASKA NATURAL GAS PIPELINE AUTHORITY (ANGDA)	Stated that he feels encouraged that the \$2.15 million request is being supported. Some of the issues would be brought to the Board, who will make a decision on modifying their mission. He felt that

		the Board would look favorably on the requests brought forth by Mr. Porter.
1055	Vice-Chair Meyer	Questioned if the Administration expected a contract by the end of session or by mid-June.
1107	Mr. Porter	Explained that while the Governor is committed to expediting the project, ANGDA would take the time to acquire the knowledge needed to benefit the state. The Administration would like to extend ANGDA's report deadline of mid-June for the Valdez development plan and other issues.
1243	Representative Chenault	Questioned where the extra funding would go in the Governor's request for \$3 million.
1306	Mr. Porter	Explained that the total \$3 million would be spent for different analyses by the three departments to bring the project forward. He did not have specifics but indicated the funding is for contingencies, for tariff and contract issues, and for research analysis. The allocation would be judiciously spent and would allow options.
1440	Mr. Porter	Further clarified that the business plan presented by Mr. Heinze did not take into consideration negotiations by the Governor.
1532	Mr. Porter	Stated that there are issues in the business plan that are not critical to the next stage of negotiations.
1603	Representative Chenault	Spoke in support of an all-Alaska Authority. He added that all viable options should be pursued.
1636	Representative Fate	Questioned the pursuit of portions, asking asked how the Authority would work out the portions to reach their objective.
1723	Mr. Porter	Observed that independents have many options depending on the commercial negotiations. ANGDA must do whatever is necessary to participate in the future contracts.
1825	Representative Fate	Asserted that there are portions of the initiative itself [Ballot Measure 3] that cannot be negotiated.
1921	Mr. Porter	Explained that the Stranded Gas Act as it exists does not allow the Authority to participate as thoroughly as it would like. The tax-exempt status, the financing issues and the benefits

		analysis have been identified and should be thoroughly evaluated.
2044	Mr. Heinze	Gave examples of significant new opportunities for the Authority to carry out its basic mission. Stated that it is essential to understand the benefit to Alaskans. Analysis of a couple of the opportunities is contemplated, with further support from the Legislature.
2234	Mr. Heinze	Continued, there are opportunities to improve the likelihood of success. The next Board meeting would review the issues, and make a decision on shifting energies to address alternatives that didn't exist a month ago.
2350	Representative Hawker	Observed that the \$2.15 million for ANGDA would be increased to \$3 million to accomplish the work of ANGDA. Questioned if there are activities that would supplant ANGDA's previous outline of activities, or if new activities would be added and prioritized.
2522	Mr. Porter	Explained that the intent is to look at a different approach, amounting to \$3 million and taking into account contingencies. Emphasized the multi-billion dollar scale of the project and the importance of being prepared.
2708	Representative Hawker	Observed that there were a number of activities relating to project viability in Mr. Heinze's previous presentation. Noted that items for \$500 thousand and \$750 thousand seemed related to project construction. He questioned if the intent of the Authority would be to focus on viability issues rather than construction.
2837	Mr. Porter	Agreed that the focus is on project viability issues, especially if the issues complement the proposed gas pipeline on the Alaska Highway route, and if the issues bring resources to the table to decrease the cost of service while increasing the benefits to Alaskans.
2914	Mr. Porter	In response to a question by Representative Hawker about integrating the proposals, pointed out that the result cannot be chosen.
2942	Vice-Chair Meyer	Asked if the funding request would be added to a supplemental budget.
3002	Mr. Porter	Explained that legislation before the Senate could provide the funding to the

		Department of Revenue. The department recommends revising the bill to include the increase.
3030	Representative Croft	Questioned why ANGDA was not mentioned in the Governor's speech to the Joint Session [2/2/04].
3103	Mr. Porter	Replied that the Governor's focus was on the Stranded Gas Act while ANGDA is focused on implementation.
3141	Representative Croft	Asked why there should be more confidence in giving the funding directly to the Department of Revenue, given that the Governor's attitude has not been supportive of ANGDA.
3300	Mr. Porter	Pointed out that the Governor was silent during the negotiations because the Administration was not able to share information with the public. He added that ANGDA would be part of the team to move the project forward. The Governor is supportive of ANGDA, which he needs for the feasibility analysis.
3520	Representative Croft	Questioned why the Governor took six months to appoint the ANGDA Board.
3544	Mr. Porter	Argued that the Governor did not delay.
3617	Representative Croft	Summarized that the funding would be disbursed through the Governor, and stated that it is important to know if ANGDA would be provided with the funding needed to support its mission. He expressed that the Administration actively opposed ANGDA for the first 6 months to a year and only provided sufficient funding to support the hiring of Mr. Heinze.
3753	Mr. Porter	Pointed out that he has been the liaison for ANGDA since it was created and unwavering in his support. Continued, the Governor supported the additional \$200 thousand appropriation [through the Legislative Budget and Audit Committee] last fall. He maintained that the Administration was supportive when ANGDA was focused on viability issues.
3920	Representative Croft	Continued to question the Governor's intent.
4009	Mr. Porter	Emphasized that the independent ANGDA Board must decide if they are confident in the Governor's support. Mr. Porter will make the same recommendation at the board meeting on 2/9/04.
4132	Representative Croft	Reiterated that Mr. Porter's

		recommendation would increase the funding from \$2.15 to \$3 million, move beyond the Valdez project to consider all Alaskan routes, and change the reporting deadline of mid-June.
4201	Mr. Heinze	Stated that he would recommend the contracts that would be needed and Mr. Porter would continue in his role of contract reviewer. Asserted that he had confidence in his working relationship with Mr. Porter and emphasized the need to move forward.
	<u>ADJOURNMENT</u>	The meeting was adjourned at 2:26 P.M.